

Meeting held on Thursday 25 May 2017
 Venue: 21 Bloomsbury Street, London WC1B 3HF

Members in attendance

Board attendees	
Jonson Cox	Non-Executive Director, Chairman
Martin Lawrence	Non-Executive Director
Tim Waggott	Non-Executive Director
Mark Bayley	Non-Executive Director
Catherine Waddams	Non-Executive Director
Alison Munro	Non-Executive Director
Christine Farnish	Non-Executive Director
Cathryn Ross	Chief Executive
John Russell	Executive Director
Richard Khaldi	Executive Director
Aileen Armstrong	Executive Director
Jenny Block	General Counsel and Board Secretary
Other attendees	
Keith Mason	Senior Director, Thames Tideway Tunnel
David Black	Senior Director, Water 2020
Claire Forbes	Senior Director, Corporate Communications
Tim Griffiths	Director, Water 2020
Colin Green	Director, Water 2020
Andrew Chesworth	Director, Water 2020
Jon Ashley	Associate Director, Water 2020
Dena Barasi	Principal, Water 2020
Amelia Daair	Principal, Water 2020
Jas Oberoi	Principal, Water 2020
Gordon Hutcheson	Principal, Water 2020
Angela Maher	Principal, Corporate Communications, Water 2020
Martyn Andrews	Director, Finance and Governance

Ian Pemberton	Principal, Strategy and Planning
Andy Duff	Director, Finance and Governance
Juliet Young	Director, Finance and Governance
Matthew Rees	Director, Finance and Governance
Sam Bache	Director, Operations (Finance)

1. Opening Items and Declarations

- 1.1. The minutes of the Board meeting held on 27 April were agreed, subject to a minor amendment.
- 1.2. There were no conflicts of interest to declare by reference to the matters on the agenda.

2. Chief Executive Report

- 2.1. The Chief Executive gave an update on the internal and external environments, highlighting:
 - Main manifestos: the Board received an update on the key themes arising from the main parties' manifestos, particularly by reference to the water and wastewater sector. The Board explored how these themes were reflected in Ofwat's work across its portfolio and how we can continue to demonstrate our effectiveness in holding companies to account in the interests of present and future customers and wider society.
 - Drought: the Board noted the extended period of dry weather and the position in relation to water resources and the action being taken by some companies as a result. It also noted Ofwat's role in this regard.
 - Resilience roundtable follow up: the Executive updated the Board on the resilience roundtable earlier in the month, chaired by Tim Waggott. The Board noted the wide ranging nature of the discussion, and that many company CEOs were thinking constructively and creatively about the many different dimensions of resilience, considering in addition to the importance of resilient assets, resilience within the workforce through better planning and skills development.

- Preliminary results: the Board noted the update provided on listed companies' preliminary results.

3. Finance and Governance

Financial structures

- 3.1. The Executive provided an update on current financing structures and issues arising by reference to a number of companies' capital structures and credit rating metrics. The Board noted the indicators of financial health which are utilised by the credit rating agencies.
- 3.2. The Board noted recent changes in ownership.

Asset Health / Thames bursts

- 3.3. The Executive provided an update on our asset health targeted review and the information provided by Thames Water on its trunk mains bursts incidents.

4. Water 2020

Overview

- 4.1 The Executive presented an overview of the Water 2020 programme.
- 4.2 The Board noted the summary of the proposals to be reflected in the PR19 methodology document on the key themes of customer service, resilience, affordability and innovation.

Performance commitments

- 4.3 The Board discussed the proposed approach to performance commitments in the PR19 methodology consultation to encourage companies to propose balanced packages of stretching performance commitments, which reflected customers' preferences.
- 4.4 The Board considered and agreed the proposed approach to the balance between common and bespoke performance commitments, subject to some points of detail.

Setting stretching performance commitment levels (PCs)

- 4.5 The Board discussed proposals on the guidance to be provided to companies on:
- their approach to setting stretching bespoke performance commitments (PCs); and
 - our expectations as to how they approach setting targets for common PCs.
- 4.6 The Board considered and agreed the proposed approach to guidance to companies on setting bespoke PCs subject to points of detail. The Board noted that Ofwat would retain the ability to intervene to set PC levels if companies' proposals are insufficiently stretching.

Outcome delivery incentives (ODIs)

- 4.7 The Board discussed the proposed approach to ODIs, and to the reputational and financial incentives attached to companies' performance commitments. The Board noted the aim that ODIs should better align the interests of investors and companies with those of their customers.
- 4.8 The Board agreed the proposed approach to in-period and end-of-period ODIs subject to points of detail.

PR19 asset health outcomes

- 4.9 The Board discussed proposals related to delivery of asset health outcomes and the incentives that the price control may provide companies to maintain the health of their assets and to ensure the proper operation of those assets, alongside our other tools such as the initial assessment of plans (IAP), regulatory pressure and enforcement action.
- 4.10 The Board agreed the proposed approach to asset health outcomes, subject to points of detail.

Experience measures

- 4.11 The Board discussed the proposed recommendation to replace the Service Incentive Mechanism with a new approach to better incentivise the customer experience for a wider range of customers. The Board discussed how the new mechanisms can be applied to end customers and to developer customers.

- 4.12 The Board agreed the proposed approach to the new experience measures, subject to points of detail.

Overall balance of incentives

- 4.13 The Board discussed the key propositions supporting the design of the overall PR19 incentive package which will include financial and reputational incentives to balance risk and return and drive better outcomes for customers now and in the long term.
- 4.14 The Board agreed the proposed approach to the overall balance of incentives, subject to points of detail.

Approach to direct procurement for customers

- 4.15 The Board discussed our approach to direct procurement for customers (DPC) which will be set out in the July methodology consultation. DPC involves companies running a competitive procurement process to appoint a third party to build, own, operate and finance network projects of more than £100m whole life totex.
- 4.16 The Board discussed key issues relating to the development of DPCs, in particular to ensure that DPCs were developed in line with the interests of customers.
- 4.17 The Board agreed the proposed approach subject to points of detail.

Move to CPI or CPIH

- 4.18 The Board discussed the preferred position to be reflected in the PR19 methodology consultation on moving to either CPI or CPIH. The Board agreed the proposed approach.

Communications update

- 4.19 The Board received an update on the proposed approach to Ofwat's communications strategy with respect to the publication of the price review methodology consultation, and also more broadly with respect to the price review.

5. Compliance, Assurance and Improvement

Annual Report and Accounts 2016-17

- 5.1 The Executive presented the draft Annual Report and Accounts for 2016-17. The Chair of the Audit and Risk Assurance Committee reported on the special ARAC meeting at which the Committee reviewed the draft annual report and accounts, enabling members to highlight key issues.
- 5.2 The Board discussed the key messages contained within the draft report and the proposals made by the ARAC.
- 5.3 Subject to a review of the opening statements of the Chair and Chief Executive and the Performance Summary, the Board delegated to the Audit and Risk Assurance Committee at its 13 June meeting the decision on whether to recommend sign off of the Annual Report and Accounts by the Accounting Officer.

6. Update from Committee Chair

Remuneration and People Committee

- 6.1 The Chair of the Committee reported on the April meeting at which the Committee discussed an overview of the 2017 Heartbeat survey results, an update on the Fit for the Future programme and objectives for SLT members. The Committee Chair noted the ongoing pressures on recruitment at the right level in light of ongoing pay constraints.

7. Any Other Business

- 7.1. The Chief Executive informed the Board that she wished to appoint our Chief Economist, Alena Kozakova, to the Senior Leadership Team subject to the conclusion of a consultation process with affected staff, which the Board noted with approval. She also noted that the recruitment processes for a new Senior Director, Market Outcomes and Enforcement and Senior Director, Business Improvement had concluded successfully. Both successful candidates had accepted the offers made and were expected to take up their roles in September.

- 7.2. The Chair thanked Richard Khaldi for his outstanding contribution to Ofwat during his tenure, including to the Board where he had been an extremely effective contributor as an Executive Director.
- 7.3. There was no other business and the Chairman closed the meeting.

Jenny Block
Board Secretary
25 May 2017